Thomas Cook Group

29 November 2018

Full year results announcement for the year ended 30 September 2018

£m (unless otherwise stated)[i]	12 months ended		Change	Like-for-like change[iii]
	30 Sept 2018	30 Sept 2017 (restated)[ii]		
Revenue	9,584	9,006	+578	+574
Underlying[iv] Gross Profit	1,955	1,992	-37	-7
Underlying[iv] Gross Margin %	20.4%	22.1%	-170bps	-140bps
Underlying[iv] Profit from Operations (Underlying EBIT)	250	326	-76	-58
Profit from operations (EBIT)	97	227	-130	-112
Profit/(Loss) after tax	(163)	9	-172	-154
Basic EPS	(10.6)p	0.7p	-11.3p	-
Underlying[iv] EPS	(0.3)p	9.1p	-9.4p	-
Recommended DPS	Nil	0.6p	-0.6p	-
Net Debt [v]	(389)	(40)	-349	-208

Notes: (i) This table includes non-statutory alternative performance measures – see page 23 for explanation, associated definitions and reconciliations to statutory numbers (ii) As part of the preparation of the FY18 Group financial statements, management identified several non-cash adjustments which have been applied to the Group's financial statements for FY17. Further details of the restatement can be found on page 35 (iii) 'Like-for-like' change adjusts for the impact of foreign exchange translation, fuel and other. The detailed like-for-like adjustments are shown on page 10 (iv) 'Underlying' refers to trading results that are adjusted for separately disclosed items that are significant in understanding the ongoing results of the Group. Separately disclosed items are detailed on pages 16 and 31 (v) See page 24 for definition and breakdown of net debt. 'Like-for-like' net debt adjusts the prior year comparative for foreign exchange translation and the impact of the Group's bond refinancing – see page 20 for reconciliation

The comments below are based on underlying like-for-like comparisons unless otherwise stated, as Management believes this provides a clearer view of the Group's year-on-year progression

Performance highlights

- Group revenue of £9,584 million, up 6% on a like-for-like basis
- Underlying EBIT of £250 million, £58 million lower than prior year on a like-for-like basis
    - Tour Operator down £88m, impacted by discounting in 'lates' market; UK particularly disappointing
    - Strong Airline profit growth of £35 million, despite higher disruption costs
    - Group result includes £28 million of legacy and non-recurring charges to underlying EBIT
- EBIT SDIs of £153 million, including transformation and start-up costs
- Net debt of £389 million; increase due to delayed bookings and higher non-cash items
- Bank covenant compliant; headroom for future covenant tests
- Dividend suspended for Full Year 2018, reflecting the overall net loss after tax

Strategic progress developing new opportunities for growth and efficiencies

- Sales of holidays to own-brand hotels up 15%; 2019 pipeline of at least 20 new hotels
- Accelerating own-brand hotel growth through £150-million fund with first £35 million expansion capital
- Strategic integration of Expedia technology and content in first five markets
- Innovative ancillary services driving growth of 4%

Priorities for 2019 onwards

- Address performance in our UK tour operator business
- Better capacity management and improved operational flexibility
- Drive increased focus on cash and cost discipline across group
- Improve selling of higher-margin own-brand hotels and differentiated holidays

Outlook for 2019

- Expect to deliver progress on underlying EBIT and lower separately disclosed items, leading to substantial progress on reported operating profit
- Reported operating profit will be a primary focus going forward, together with free cash generation

Thomas Cook Group

Commenting on the results for 2018, Peter Fankhauser added:

"2018 was a disappointing year for Thomas Cook, despite achieving some important milestones in our strategy for transforming the business. After a good start to the year, we experienced a larger-than-anticipated decline in gross margin following the prolonged period of hot weather in our key summer trading period.

"Profit in our tour operating business fell £88 million as the sustained heatwave restricted our ability to achieve the planned margins in the last quarter. The UK was particularly hard hit with very high levels of promotional activity coming on top of an already competitive market for holidays to Spain. Despite the impact of the hot summer, our Northern European tour operator achieved a near record performance, albeit lower than that expected at the end of May. Meanwhile, our Group Airline delivered strong growth in customers and profit, up £35 million, benefitting from increasing capacity in a turbulent European aviation sector.

"We remain committed to our strategy for profitable growth and we've made some good progress during the year. Within our own-brand hotels business we have established our hotel investment fund, opening 11 new hotels last summer, including an innovative new concept in Cook's Club. This positions us well for 2019 as we build on our position as one of the top 5 sun & beach hotel companies in Europe with at least 20 new hotel openings planned. Meanwhile, the launch of our alliance with Expedia, now in five of our markets, offers customers a much wider choice of city and domestic hotels at lower cost to the business. Taken together, these developments are transforming our opportunities for growth.

"Looking ahead, we must learn the lessons from 2018 and go into the new year focused on where we can make a difference to customers in our core holiday offering. We will put particular attention on addressing the performance in our UK tour operator where the challenges of transformation in a competitive environment remain significant. Across the Group, we will continue to streamline our cost base and manage our capacity to give us greater operational flexibility and financial discipline, while focusing the team on delivering performance improvements and giving customers more reasons to holiday with Thomas Cook."

Replay of presentation for equity analysts and investors

A presentation for equity analysts and investors was held on Tuesday 27 November, on release of our FY 2018 results update. The recording of this event is now available on www.thomascookgroup.com. There is no further presentation planned for today.

Forthcoming announcement dates

The Group intends to announce a first quarter trading update on 7 February 2019.

Enquiries

Analysts & Investors:	Tej Randhawa, Thomas Cook Group	+44 (0) 20 7557 6487
Media:	Matthew Magee, Thomas Cook Group	+44 (0) 20 7294 7059
	Chris Alfred, Thomas Cook Group	+44 (0) 20 7294 7203

SUMMARY OF 2018 PERFORMANCE

Overall, our financial performance in 2018 was disappointing, despite starting the year well and making good strategic progress. Group revenue was £9.6 billion, up 6% on a like-for-like basis, and group underlying EBIT was £250 million, down £58 million on a like-for-like basis.

We delivered a strong first six months of the year, achieving improved financial results and going into the summer with a positive position. As a result, we were confident of filling all our committed hotel accommodation and flight capacity at good returns. However, with the start of the heatwave in May, demand reduced sharply with customers across our European markets delaying holiday decisions as they enjoyed record temperatures at home. This delay in bookings restricted our ability to achieve the planned margins in the 'lates' booking period.

While all our source markets were impacted, we saw a particular hit to our UK business where the slowdown in bookings came on top of an already competitive market for Spanish holidays. We have a specific plan to address the performance in our UK Tour Operator, set out later in this statement.

Overall, a higher-than-anticipated decline in gross margin in the final quarter resulted in underlying EBIT in our Tour Operator business being £88 million down for the full year. Within this, our Northern European Tour Operator achieved a near record performance, albeit lower than that expected at the end of the first half, despite the impact of the hot summer.

The weakness in our Tour Operator was partially offset by a good performance in our Group Airline. This looked set for an excellent year until air traffic control issues led to industry-wide disruption. This was compounded by operational challenges as we grew capacity to take advantage of the failure of Air Berlin. Nevertheless, our Group Airline delivered a £35 million improvement in profit in 2018.

Overall, our Group underlying EBIT was £250 million, £58 million lower than the prior year on a like-for-like basis. This reduction includes £28 million of legacy and non-recurring charges, comprising a £14 million write-down of historic hotel receivables, £4 million of flight disruption costs and £10 million of further transformation costs, taken through underlying EBIT rather than separately disclosed items (SDIs). In addition, £24 million of prior year balance sheet adjustments were made, reflecting a write down of historic balances now considered to be irrecoverable.

Overall, SDIs totalled £153 million which principally relate to our transformation programme and start-up costs relating to new ventures.

Free cash outflow was £148 million, £294 million below last year. This reflects the lower underlying EBIT performance, higher cash-related SDIs, investment in our new hotel fund and a working capital impact from the slow start to bookings for the 2019 winter season.

Net debt was £389 million, including the impact of non-cash adjustments for foreign exchange and finance lease extensions, which totalled £141 million. While net debt is higher than previously forecast, the Group's lenders remain supportive and we have secured additional flexibility to ensure we can continue to deliver our strategic plan. With an increased focus on free cash generation and cost management in our new plans, we are confident that we will make good progress reducing net debt over the next few years.

Further details on interest, tax and the Group's overall loss after tax are provided in the financial review section of this statement.

The Board decided to suspend the dividend for FY18, reflecting the overall net loss after tax reported by the Group. This decision does not reflect a change in the long-term dividend policy, which is to target dividend growth that reflects the Group's progress in underlying earnings per share. For FY17 the Company paid a dividend of 0.6 pence per share resulting in a cash redemption of £9 million.

PROGRESS ON DELIVERING OUR STRATEGY

Despite the disappointing financial performance, 2018 was a year of good strategic progress for Thomas Cook. We've taken important steps to grow our own-brand hotels business, establishing our hotel investment fund and opening 11 new hotels, including an innovative new concept in Cook's Club. Meanwhile, the launch of our alliance with Expedia in five markets is giving customers greater choice, at lower cost to the business. These represent significant steps forward in our strategy which is transforming our opportunity for sustainable growth in the years ahead.

Customer at our Heart is delivering meaningful improvements

Three years after introducing "Customer at our Heart", we now have tangible evidence that it is delivering. Customers are more loyal to Thomas Cook with a higher rebooking rate in 2018 than the previous year and we attracted 3% more new customers than in 2017.

More than that, we see a direct correlation between Net Promoter Score (NPS), our key measure of customer satisfaction, and the financial returns we can generate as a business. Where a hotel meets our threshold measurement on NPS, we earn an additional two percentage points more in margin the following year, showing that customers are willing to pay more for better quality.

NPS across our hotel portfolio increased 2 points in the past 12 months, demonstrating that the work we've done to improve quality in destination and our stringent approach to the hotels we include in our portfolio is paying off. Following a summer of airline disruption, as we integrated new aircraft and managed the impact of industry-wide air traffic control issues, Group Airline NPS was down 3 points. As a result, after two years of consecutive growth, group NPS fell back 0.8 points in 2018.

Customer Care – building trust in our brand

Our focus on the customer drives the big decisions that we take as a business. At an operational level, that means gathering all the information we can about our customers' experience and constantly monitoring it to shape the decisions about the hotels we sell.

The introduction of a new customer feedback management tool, InMoment, at the start of 2018 provides our hotel quality managers with detailed, real-time information on customers' experience of all aspects of a hotel. This enables them immediately to identify issues and intervene with improvement plans.

Customer Contact – forging closer relationships

The success of our customer-led strategy rests on strengthening our direct relationships and ensuring that we are available where, when and how our customers need us. We want to increase the number of customers who book directly with Thomas Cook, with a focus on digital channels where our cost of sale is lower. At the same time, we want to make it easier for our customers to book all of the services and holiday extras which help to give customers a personalised holiday experience.

Online sales increased in all segments in 2018 with particularly strong growth in the UK, up almost 30% year on year. Germany increased by almost 25% and our Airline by 17%. Online now accounts for 48% of bookings across the Group.

Holidays – improving choice and flexibility

Our holidays are the primary focus of all that we do at Thomas Cook. At the heart of that strategy sits a streamlined portfolio of 3,150 hotels where we can have a greater influence over our customers' experience – generating higher returns for our business.

In an increasingly competitive market, we know the successful businesses will be those that genuinely differentiate their offer and provide real value to the customer.

This is a growing market. One in five of our customers go on more package holidays than three years ago. In addition, more than two in three want the opportunity to personalise their holiday, which is why we have launched innovative new services like Choose Your Favourite Sunbed and Choose Your Room.

Our customers are responding well to these innovations. Alongside our 24-Hour Hotel Satisfaction Promise, which is now in place across all our core hotels, we are distinguishing our holidays from other package holiday providers, giving them more reasons to book with Thomas Cook.

Hotels – our own-brand strategy is winning with customers

Own-brand hotels are the cornerstone of our holiday strategy, presenting the greatest opportunity for differentiation and, from that, higher returns.

All our customer research supports that decision. Across our three biggest markets, customers' satisfaction with their hotel is the most important influencing factor in their overall satisfaction with their holiday. Three in ten customers now say that the hotel is more important even than the destination.

The NPS in our own-brand hotels in 2018 was two percentage points higher than our differentiated portfolio as a whole. And our new concept hotels like Casa Cook are among the very top performing hotels for NPS. This plays into the financial returns we make from these hotels. We earn a significantly higher margin from our own-brand hotels versus those from our selected partner hotels.

In Summer 2018, we opened 11 new own-brand hotels, including a new concept in Cook's Club. This builds on the success of Casa Cook, extending the same design-led approach to bigger properties at a more accessible price that we can roll out at scale.

The first hotel under the Cook's Club brand opened in June in Crete and transformed a traditional holiday resort hotel into a stripped-back, design-led hotel to appeal to a new generation of travellers. In its first summer, the hotel delivered occupancy levels of more than 93% and increased its average daily room rate by almost 50% versus the previous year.

In 2019, we plan to open at least 20 own-brand hotels. This includes up to 10 new Cook's Club hotels; the company's first Casa Cook in its biggest market, Spain; and the first family Casa Cook in Greece. The new properties will take the company's portfolio to 200 hotels with around 40,000 rooms, putting us in the top five largest sun and beach hotel groups in Europe.

This expansion is boosted by the launch of our new hotel fund, Thomas Cook Hotel Investments, in partnership with hotel development company LMEY. Casa Cook Ibiza will open next summer as the first new project for the fund. Managed by Thomas Cook, we expect the 189-room hotel to continue the success of the first two openings for the Casa Cook brand where more than 75% of guests have been new to the company. We are targeting a further five new projects for the fund for 2019, focusing on our key brands of Casa Cook, Cook's Club and Sunwing.

Airline – good performance in a challenging year for operations

The success of our holiday offer is supported by a well-managed airline which leverages its relationship with our holiday business while actively developing its own distribution channels to compete wing-to-wing with other European leisure carriers.

2018 was a strong year of growth for our airline against a backdrop of widespread disruption following the collapse of Monarch and Air Berlin in 2017 and strike action across European air traffic control. We took advantage of the upheaval in the market to expand capacity by 10% this summer, increasing our market share at a number of our key airports in Germany in particular. We also strengthened our operational setup to support that growth with the addition of two new Air Operating Certificates (AOCs), including a new operation in one of our biggest destinations, the Balearics.

We made good progress with our efficiency programme, removing a further £31 million in cost through synergies achieved as we bring our national airlines closer together to operate as one European airline.

Despite some operational challenges, we delivered good growth in customers and profit, which increased by £35 million year on year on an underlying basis. Our focus for 2019 is to consolidate the growth we achieved in 2018, strengthen our customer offer and further extend our reach.

Partnerships

Complementary holidays

Ultimately, we know that the success of our strategy will be determined by our ability to focus on delivering higher returns from our core sun & beach holidays while at the same time partnering with the best in the industry to offer customers even greater choice.

The launch of our Expedia alliance in the first five markets was a milestone development. Plugging in Expedia's market-leading capabilities and extensive catalogue of city and domestic hotels will transform the way we offer a choice of holidays to our customers: more than 150,000 hotels that meet our health and safety standards, with an improved booking journey, at reduced cost and complexity to our business.

Combined with our hotel sourcing partnership with Webjet in sun and beach, we delivered 58% growth in overall bed-bank bookings for the year. This demonstrates the prospects for this part of the business as we roll it out further – and begin to take advantage of Expedia's distribution channels to sell our own-brand hotels where we have excess capacity.

Thomas Cook China

Our joint venture with Fosun in China had a strong year, growing customers eight-fold and building the foundations from which it can grow over time to become comparable in size to our other key source markets, an important step as we look to diversify away from our dependence on north and western European markets.

We strengthened our partnership with Alibaba, the world's largest online marketplace, to increase the number of holidays we sell on its travel division, Fliggy, helping us to further leverage Alibaba's large customer base of active users in China. At the same time, we are building out our own digital distribution platform to grow our direct customer base. Our Webjet partnership is now integrated with our Chinese platform, along with a number of other bedbanks, creating a fully automated and scaleable customer offer.

We are also developing our first own-brand hotels in China, taking advantage of the fast-growing Chinese domestic tourism market. These include a 200+ room Sunwing family resort in Jaishan with another family property in the pipeline.

Thomas Cook Money

Our financial services division launched two new products in the UK: a new pre-paid travel card, Lyk, replaced Thomas Cook's existing cash passport with lower fees and more customer benefits; and Roam which offers a simpler way to buy and personalise your holiday insurance.

We have combined the management of Thomas Cook Money and UK retail to strengthen the reach of our innovative travel-related financial services to our large and loyal high street customer base and maximise returns from our store estate.

Thomas Cook Money has also grown its business-to-business partnerships including with European travel insurance broker InterMundial and digital challenger bank Revolut for travel insurance. In total, more than 3 million customers now use Thomas Cook for holiday money or travel insurance.

CURRENT TRADING AND OUTLOOK

Summer 2018

Our Summer 2018 season closed out with no material change compared to our pre-close trading update in September.

Winter 2018/19

Against a strong winter in 2017/18, bookings for the Group Tour Operator are 3% down on last year, with flat pricing, largely reflecting knock-on effects from the hot summer weather and poor demand for the Canary Islands.

UK bookings are broadly flat, albeit at lower margins due to increased capacity in the wider market. In Northern Europe, where as previously advised we have reduced winter capacity by 5%, the knock-on impact of the summer heatwave and continued mild weather is leading customers to delay booking their winter holiday, resulting in 8% lower bookings year on year. Excluding the legacy city and domestic hotel-only business, which is being transformed as we move over to Expedia, bookings in Continental Europe are down 2%. The modest decline is driven largely by the reduced demand for the Canary Islands, a key winter destination, a trend we are seeing across the Tour Operator. Demand is strong for Turkey, Egypt and Tunisia as customers seek alternatives to high hotel prices in the Canaries.

Airline trading is positive, with bookings 11% ahead of last year and improved pricing across short and medium-haul routes with bookings up 14%, reflecting good growth to Egypt and Turkey. Long-haul bookings, particularly to the US and Caribbean, are trading well with bookings up 4%.

Winter 2018/19	Year-on-Year Variation %		
	Bookings[(i)]	ASP[(i)]	% Sold[(ii)]
Tour Operator by Market			
UK	+1%	+4%	60%
Continental Europe[(iii)]	-2%	-2%	63%
Northern Europe	-8%	-2%	72%
Group Tour Operator	**-3%**	**-1%**	**65%**
Short & Medium Haul	+14%	+6%	55%
Long Haul	+4%	-1%	66%
Group Airline[(iv)]	**+11%**	**-2%**	**58%**
Total Group	**+10%**	**-10%**	**55%**

Based on cumulative bookings to 17 November 2018. Notes: (i) Risk and non-risk customers (ii) Risk customers only (iii) Continental Europe bookings including our legacy city and domestic business were down 7%, with pricing up 2% (iv) Group Airline figures include intercompany sales to the Group Tour Operator

Summer 2019

Although it is still early in the booking cycle for Summer 2019, we have seen a mixed start to trading. UK bookings are positive, while Continental and Northern Europe bookings are behind a strong start to last year. Tour Operator pricing overall is ahead of last year. Demand for our holidays to Turkey and Egypt is strong, while we're seeing good growth in long-haul holidays, particularly to the USA.

Our Airline typically has a later booking profile compared to the Tour Operator, and it is therefore too early to comment on the Airline's current trading for Summer 2019.

Outlook - Priorities for 2019 onwards

Despite the overall result, we have made good strategic progress through the year. We have delivered many innovative and exciting initiatives that we believe will transform the prospects for our business in the future. It is important that we continue to execute our strategy where it matters – close to the customer in all of our markets – and to transform our business with consistency, pace and flexibility, enabling us to address changing customer expectations and demands.

At the same time, we must learn from 2018. We are putting particular focus on addressing the performance in our UK Tour Operator where the challenges of transformation remain significant, operating in a competitive environment with still too many legacy systems and processes. We now have a clear plan of action centred on driving awareness and take-up of own-brand hotels; reducing our committed risk capacity and replacing it with more non-risk, dynamically-packaged product; introducing new automated yield systems; combining our retail stores business with Thomas Cook Money to optimise store profitability; and targeting a best-in-class cost base.

Across Thomas Cook, we operate in markets that are sensitive to a range of uncertainties, including poor weather and third-party incidents. That means we have to manage risk in our financial and commercial commitments. As a result, we are making changes to our management of risk internally, the way we set targets for management and how we communicate these externally.

To provide greater consistency in our core financials, we are reducing our committed airline capacity for 2019 and increasing the focus on higher quality, higher-margin hotels and destinations, with clearer processes and incentives to ensure these are prioritised through our retail and online sales network.

As a result, looking to 2019, we expect to deliver progress on underlying EBIT and lower separately disclosed items, leading to substantial progress on reported operating profit. Reported operating profit will be a primary focus going forward, together with free cash generation.

OPERATING AND FINANCIAL REVIEW

£m	12 months ended 30 Sep 2018	12 months ended 30 Sep 2017 (restated)(i)	Change	Like-for-like Change(iii)
Revenue	9,584	9,006	+578	+574
Underlying(ii) Gross profit	1,955	1,992	-37	-7
Underlying(ii) Gross Margin (%)	20.4%	22.1%	-170bps	-140bps
Underlying(ii) Operating expenses	(1,707)	(1,665)	-42	-54
Associated Undertakings(i)	2	(1)	+3	+3
Underlying(ii) profit from operations (Underlying EBIT)	**250**	**326**	**-76**	**-58**
EBIT Separately Disclosed Items	(153)	(99)	-54	-54
Profit from operations (EBIT)	**97**	**227**	**-130**	**-112**
Underlying(ii) Net finance charges	(124)	(143)	+19	+19
Separately disclosed finance charges	(26)	(41)	+15	+15
Profit / (loss) before tax	**(53)**	**43**	**-96**	**-78**
Tax	(110)	(34)	-76	-76
Profit / (loss) after tax	**(163)**	**9**	**-172**	**-154**
Basic EPS	(10.6)p	0.7p	-11.3p	-
Underlying(ii) EPS	(0.3)p	9.1p	-9.4p	-
DPS(iv)	nil	0.6p	-0.6p	-
Unlevered free cash flow(v)	(18)	285	-303	-
Free cash flow(v)	(148)	146	-294	-
Net debt	(389)	(40)	-349	-208(vi)

Notes (i) In FY18 management has incorporated associated undertakings within the definition of underlying EBIT, and restated FY17 accordingly. In addition, management identified several non-cash adjustments which have been applied to the Group financial statements for FY17. Further details are shown on page 35

(ii) 'Underlying' refers to trading results that are adjusted for separately disclosed items that are significant to understanding the ongoing results of the Group. Separately disclosed items are detailed on page 17

(iii) 'Like-for-like' change adjusts for the impact of foreign exchange translation and business structure changes. The detailed like-for-like adjustments are shown on page 10

(iv) There is no dividend awarded for this financial year.

(v) Unlevered Free cash flow is operating cashflow less exceptional items and capital expenditure. Free cash flow additionally includes interest paid. A summary cash flow statement is presented on page 19, and a reconciliation of free cash flow is shown on page 23

(vi) Like-for-like net debt adjusts the prior year comparative for foreign exchange translation, the impact in change in finance lease arrangements and associated costs of the bond refinancing, which totalled £141 million, resulting in FY17 like-for-like net debt of £181 million

SUMMARY OF 2018 PERFORMANCE

Overall, our financial performance in 2018 was disappointing, despite starting the year well and making good strategic progress. Group revenue was £9.6 billion, up 6% on a like-for-like basis, and group underlying EBIT was £250 million, down £58 million on a like-for-like basis.

We delivered a strong first six months of the year, achieving improved financial results and going into the summer with a positive booking position. As a result, we were confident of filling all our committed hotel accommodation and flight capacity at good returns. However, with the start of the heatwave in May, demand reduced sharply with customers across our European markets delaying holiday decisions as they enjoyed record temperatures at home. This delay in bookings restricted our ability to achieve the planned margins in the 'lates' booking period.

While all our source markets were impacted, we saw a particular hit to our UK business where the slowdown in bookings came on top of an already competitive market for Spanish holidays. We have a specific plan to address the performance in our UK Tour Operator, set out later in this section.

Overall, a higher-than-anticipated decline in gross margin in the final quarter resulted in underlying EBIT in our Tour Operator business being £88 million down for the full year. Within this, our Northern European Tour Operator achieved a near record performance, albeit lower than that expected at the end of the first half, despite the impact of the hot summer.

The weakness in our Tour Operator was partially offset by a good performance in our Group Airline. This looked set for an excellent year until air traffic control issues led to industry-wide disruption. This was compounded by operational challenges as we grew capacity to take advantage of the failure of Air Berlin. Nevertheless, our Group Airline delivered a £35 million improvement in profit in 2018.

Overall, our Group underlying EBIT was £250 million, £58 million lower than the prior year on a like-for-like basis. This reduction includes £28 million of legacy and non-recurring charges, comprising a £14 million write-down of historic hotel receivables, £4 million of flight disruption costs and £10 million of further transformation costs, taken through underlying EBIT rather than separately disclosed items (SDIs).

Overall, SDIs totalled £153 million which principally relate to our transformation programme and start-up costs relating to new ventures.

Free cash outflow was £148 million, £294 million below last year. This reflects the lower underlying EBIT performance, higher cash-related SDIs, investment in our new hotel fund and a working capital impact from the slow start to bookings for the 2019 winter season.

Net debt was £389 million, including the impact of non-cash adjustments for foreign exchange and finance lease extensions, which totalled £141 million. While net debt is higher than previously forecast, the Group's lenders remain supportive and we have secured additional flexibility to ensure we can continue to deliver our strategic plan. With an increased focus on free cash generation and cost management in our new plans, we are confident that we will make good progress reducing net debt over the next few years.

Also included in the financial statements is £24 million of prior year balance sheet adjustments, reflecting a write down of historic balances now considered to be irrecoverable. See page 35 for further details.

Like-for-like Analysis

Certain items, such as the normal translational effect of foreign exchange movements, affect the comparability of the underlying performance between financial years. To assist in understanding the impact of those factors, and to better present underlying year-on-year changes, 'like-for-like' comparisons with FY17 are presented in addition to the change in reported numbers.

The 'like-for-like' adjustments to the Group's FY17 results and the resulting year-on-year movements are as follows:

Group	Revenue £m	Gross Margin %	Operating Expenses £m	Underlying EBIT £m
Restated FY17(i)	**9,006**	**22.1%**	**(1,665)**	**326**
Impact of Currency Movements	4	-	(10)	(14)
Business transfers	-	(0.3)%	22	-
Group Airline set up costs(ii)	-	-	-	(4)
Restated FY17 Like-for-like	**9,010**	**21.8%**	**(1,653)**	**308**
FY18 Reported	**9,584**	**20.4%**	**(1,707)**	**250**
Like-for-like change (£m)	+574	n/a	-54	-58
Like-for-like change (%)	+6%	-140bps	-3%	-19%

Notes (i) See note 10 on page 35 for details of the prior year restatement

(ii) Group Airline set up costs related to the set up of our Palma-based airline, Thomas Cook Airlines Balerics

The 'like-for-like' adjustments to the Group's performance by business line (the Group reports the operations of its Group Tour Operator and Group Airline businesses as its primary reporting segmentation, reflecting the way the business is managed and reported internally) are as follows:

Underlying EBIT by business line	Group Tour Operator £m	Group Airline £m	Corporate £m	Group £m
Restated[(i)] FY17	**246**	**115**	**(35)**	**326**
Impact of Currency Movements	(9)	(5)	-	(14)
Business transfers	12	(12)	-	-
Group Airline set up costs[(ii)]	-	(4)	-	(4)
FY17 Like-for-like	**249**	**94**	**(35)**	**308**
FY18 Reported	**161**	**129**	**(40)**	**250**
Like-for-like change (£m)	-88	+35	-5	-58
Like-for-like change (%)	-35%	+37%	-14%	-19%

Notes (i) See note 10 on page 35 for details of the prior year restatement

(ii) Group Airline set up costs related to the set up of our Palma-based airline, Thomas Cook Airlines Balerics

Revenue

Group revenue increased by 6% to £9,584 million, due to a return in popularity for holidays to Turkey and North Africa (Tunisia and Egypt) which grew by a combined £545 million (44%). Greece remained strong, growing for the fifth consecutive year. Revenue generated from Spain was 3% lower, as customer demand shifted towards other destinations. The main components of the changes by destination are as follows:

	£m
FY17 Like-for-like Revenue	**9,010**
North Africa	198
Turkey	347
Greece	93
Spain	(70)
Other Short/Medium Haul	(5)
Long Haul	11
FY18 Revenue	**9,584**

Underlying Gross Profit and Margin

Underlying gross profit was broadly unchanged at £1,955 million, with revenue growth offsetting a reduction in underlying gross margin. Underlying gross margins were significantly impacted in the critical last few months of trading by an oversupply of holidays left to sell across the market and an even more competitive pricing environment than usual as a result of the extremely hot weather across Northern and Western Europe. As a result, and despite the good start to the year, Group underlying gross margin reduced by 140 basis points versus last year, to 20.4%.

Our UK and Nordic Tour Operators were particularly impacted by the heatwave. For our UK business the hot weather came on top of continued inflation in hotel costs for Spanish holidays. Meanwhile, margins in our Continental Europe businesses were also impacted by the business mix, with strong growth in our Russian business, which has a lower relative gross margin. Our Group Airline gross margin was impacted by disruption caused by third party strike action and delays in the registration of new aircraft. The relative impact on the Group's underlying gross margin performance by segment is set out below:

FY17 restated[i] Like-for-like Gross Margin	**21.8%**
UK Tour Operator	-0.6%
Continental Europe Tour Operator	-0.3%
Northern Europe Tour Operator	-0.3%
Airline	-0.2%
FY18 Gross Margin	**20.4%**

Note (i) See note 10 on page 35 for details of the prior year restatement

Underlying Operating Expenses / Overheads

Operating expenses before depreciation increased by 4% (£59 million) to £1,488 million as the benefits of initiatives to increase efficiency and reduce costs were more than offset by inflation and volume-related increases to the operating cost base relating to our decision to increase capacity in our Airline. Depreciation decreased by £5 million.

£m	Year ended 30 Sep 2018	Year ended 30 Sep 2017 LfL	Like-for-Like Change
Personnel Costs	(1,015)	(981)	-34
Net Operating Expenses	(473)	(448)	-25
Sub Total	**(1,488)**	**(1,429)**	**-59**
Depreciation	(219)	(224)	+5
Total	**(1,707)**	**(1,653)**	**-54**

Underlying EBIT

Underlying EBIT of £250 million was 19% lower than the prior year on a like-for-like basis. The principal components of the Group's Underlying EBIT performance for the year are summarised below under "segmental review".

EBIT

Statutory EBIT of £97 million was £112 million lower than the prior year on a like-for-like basis, largely due to the lower underlying EBIT, together with an increase in SDIs to £153 million (FY17: £99 million). The principal components of the Group's SDIs performance for the year are summarised below under "other financial items".

SEGMENTAL REVIEW

Performance by business line

During the year underlying EBIT decreased by £58 million on a like-for-like basis, analysed as follows:

£m	Tour Operator	Airline	Corporate / Eliminations	Group
Revenue	7,394	3,519	(1,329)	9,584
Gross Margin (%)	13.5%	27.1%	n/m	20.4%
Underlying EBIT	**161**	**129**	**(40)**	**250**
Underlying EBIT margin (%)	2.2%	3.7%	n/m	2.6%
Like-for-Like Underlying EBIT change	**-88**	**+35**	**-5**	**-58**
Customers ('000)	10,881	20,163	(9,091)	21,953

A review of the performance of each of our business units is set out below:

Group Tour Operator

£m	FY18	FY17	Change	FY17 Like-for-Like	Like-for-Like Change
Revenue	7,394	7,121	+273	7,136	+258
Gross Margin (%)	13.5%	15.4%	-190bps	15.4%	-190bps
Underlying EBIT	**161**	**246**	**-85**	**249**	**-88**
Underlying EBIT margin (%)	2.2%	3.5%	-130bps	3.5%	-130bps
Customers (000's)	10,881	11,032	-151	11,232	-351
ASP (£)	680	645	+35	635	+45

Our Group Tour Operator increased revenue in all our core markets, highlighting continuing demand for our product and service offering. Total customer numbers fell overall by 3% to 10.9 million, with strong growth in the sales of holidays to own-brand and selected partner hotels offset by reductions in complementary sales as we scaled back certain legacy, complementary business lines. In total, revenue grew by £258 million (or 4%) to £7,394 million (FY17: £7,136 million). However margins declined in all source markets, particularly in the fourth quarter, due to the over-supply of holidays left to sell in the Summer 'lates' market which put pressure on selling prices.

The underlying EBIT for our Group Tour Operator, split by source market, is set out below:

£m	FY18	FY17	Change	FY17 Like-for-Like	Like-for-Like Change
Underlying Revenue					
- UK	1,954	1,857	+97	1,857	+97
- Continental Europe	4,168	4,053	+115	4,113	+55
- Northern Europe	1,272	1,211	+61	1,166	+106
Total	**7,394**	**7,121**	**+273**	**7,136**	**+258**
Underlying EBIT					
- UK	(7)	49	-56	49	-56
- Continental Europe	73	95	-22	103	-30
- Northern Europe	95	102	-7	97	-2
Total	**161**	**246**	**-85**	**249**	**-88**

UK

Our UK tour operating business achieved good top-line growth in FY18, with revenues increasing by 5% compared to the previous year. Sales of holidays to differentiated hotels grew particularly strongly, at 20%. Across our destinations, sales to Turkey and Egypt grew significantly, by 70% and 95% respectively, while sales to Spain, where we have seen the highest hotel cost inflation, decreased by 9%. Despite rebalancing our destination mix, we continued to experience margin pressure due to the competitive environment, particularly in the Summer 'lates' market when the heatwave significantly impacted market demand. As a result, underlying EBIT declined by £56 million to a loss of £7 million.

We continued during FY18 to take actions to improve the business positioning, including growing our online sales by almost 30%, closing a further 100 loss-making retail stores, and improving the quality and competitiveness of our product offering. However, it is clear that our UK tour operating business continues to operate in a highly competitive environment where the challenges of transformation remain significant. To address these challenges, we are implementing a clear set of actions in FY19 aimed both at growing gross margins and minimising overhead. These include driving awareness and take-up of own-brand hotels; reducing our committed risk capacity and replacing it with more non-risk, dynamically-packaged product;

introducing new automated yield systems; combining our retail stores business with Thomas Cook Money to optimise store profitability; and targeting a best-in-class cost base.

Northern Europe

Strong Winter trading for Northern Europe led to a very positive first half performance, with underlying EBIT up by £9 million. At the beginning of May, the bookings position for Summer holidays was 7% higher than the previous year, with average selling prices up 5%. However, bookings and margins declined significantly in the fourth quarter, as many consumers chose to enjoy the prolonged good weather at home, rather than travel abroad. As a result, while revenue for the year grew by 9% reflecting overall higher volumes and pricing, full year underlying EBIT fell by £2 million to £95 million (FY17: £97 million).

Continental Europe

Our Continental Europe business also ended the Winter in a strong position, with a £3 million lower seasonal EBIT loss for the first half, and a positive bookings and pricing position for Summer. However, due to weak demand in the fourth quarter on account of the heatwave, underlying EBIT for the year as a whole declined by £30 million to £73 million (FY17: £103 million). Our German business was also impacted by the effects of the widespread flight disruption, processing a higher-than-usual number of flight changes, re-bookings and cancellations. In our Dutch and Eastern European businesses, volumes and profits declined as capacity was reduced.

By contrast, Belgium continued to perform well, following the transfer of our Belgian airline business to SN Brussels in November 2017. Russia and France grew significantly during the year, with customer numbers up by 13% and 18% respectively. Russian growth was mainly due to increasingly strong demand for Turkey, while France benefitted from strong growth in demand for North African destinations, together with the effect of significant cost-cutting over recent years.

Group Airline

£m	FY18	FY17	Change	FY17 Like-for-Like[(i)]	Like-for-Like Change
Flight Revenue	3,124	2,847	+277	2,759	+365
Ancillary Revenue	333	310	+23	300	+33
Other Revenue	62	28	+34	28	+34
Total Revenue	**3,519**	**3,185**	**+334**	**3,087**	**+432**
Operating Costs	(3,063)	(2,760)	-303	(2,683)	-380
Underlying EBITDAR	**456**	**425**	**+31**	**404**	**+52**
Underlying EBITDAR margin (%)	*13.0%*	*13.3%*	*-30bps*	*13.1%*	*-10bps*
Depreciation	(158)	(167)	+9	(167)	+9
Aircraft Lease Costs	(169)	(143)	-26	(143)	-26
Underlying EBIT	**129**	**115**	**+14**	**94**	**+35**
Underlying EBIT margin (%)	*3.7 %*	*3.6%*	*+10bps*	*3.0%*	*+70bps*
Customers (000's)	20,163	18,528	+1,635	17,727	+2,436
Proportion of internal sales (%)	38%	42%	-400bps	-	-
Available Seat Kilometres (ASK) (m)	73,954	70,171	+3,783	68,211	+5,743
Seat Load Factor (SLF) (%)	90.2%	89.7%	+50bps	91.3%	-110bps
Long Haul Yields per sold seat (£)	312	306	+6	308	+4
Short/Medium Haul Yields per sold seat (£)	115	110	+5	109	+6
Unit cost (p./ASK)	(4.34)	(4.37)	+0.03	(4.12)	-0.22

Note (i) 'Like-for-like' change adjusts for the impact of foreign exchange and the transfer of the Belgium Airline to SN Brussels.

Our Group Airline revenue of £3,519 million was up 14% on a like-for-like basis, reflecting improvements to both volumes and yields. Customer numbers increased by 14% to 20.2 million, while yields increased by 6% and 1% in short/medium-haul and long-haul respectively.

Growth in short/medium-haul was due to an increase in capacity, as a result of strong additional demand from third-party tour operators and seat-only customers, following the collapse of Monarch and Air Berlin/Niki. Short/medium-haul yields increased by 6% to £115 per seat sold; the long-haul business increased yields by 1% to £312 per seat sold.

The strong growth in customers, in combination with the full-year impact of our upgraded booking system, helped drive an increase in ancillary revenues of 11% to £333 million, primarily in relation to seat reservations. However, with short/medium-haul customers representing a significantly higher share of the overall customer base, ancillary revenue per customer overall decreased by 2% to £17.42 (FY17 like for like: £17.75). This is because short/medium-haul customers typically spend less on ancillaries than those on long haul.

Operating cost increases were in line with capacity growth, including the impact of higher hedged fuel prices as well as increases in US Dollar dominated costs (principally leasing and maintenance costs) due to less favourable exchange rates. In addition, our Group Airline experienced an unprecedented level of operational disruption due to a lack of sufficient aircraft capacity in the market, as well as increased restrictions in European air space. These cost increases were partly mitigated by the implementation of further efficiencies as part of our profit improvement programme, as well as lower maintenance costs as a result of improved return-of-lease requirements following the extension of aircraft leases. As a result, total cost per average seat kilometer (ASK) increased by 0.2 pence to 4.34 pence per ASK.

Underlying EBIT for our Group Airline grew by 37% to £129 million on a like-for-like basis, largely reflecting an improved performance at Condor, as a result of delivering a successful turnaround, supported by profitable growth in the short/medium-haul business. Our UK airline grew revenues by 14% during the year but reported underlying EBIT broadly unchanged due to benefits from higher volumes and yields being offset by significant fuel price and foreign exchange headwinds.

Corporate

Corporate costs increased by £5 million to £40 million (FY17: £35 million), reflecting additional costs incurred to support corporate projects such as the set-up of the hotel fund.

OTHER FINANCIAL ITEMS

Underlying Net Finance Charges

Group net finance costs for the year of £124 million were £19 million lower than last year (FY17: £143 million). Bank and bond interest charges reduced by £7 million, following the replacement of previous bonds with new lower-coupon bonds issued in December 2016 and December 2017. Letters of credit and other interest payable charges reduced by £13 million, due to lower bonding costs and lower non-cash interest charges as a result of the changes in discount rates.

£m	FY18	FY17
Bank and Bond interest	(71)	(78)
Letters of credit and other interest payable	(31)	(44)
Fee amortisation	(8)	(7)
Interest income	5	4
Net interest & finance costs before aircraft financing	**(105)**	**(125)**
Aircraft financing	(19)	(18)
Net Finance Costs	**(124)**	**(143)**

Note (i) Further information on Finance costs are set out in Note 5 on page 33.

Separately Disclosed Items

Total Separately Disclosed Items (SDIs) relating to operating and finance totalled a net charge of £179 million, which is £39 million higher than the prior year (FY17: £140 million) due to an acceleration of transformation activity, and additional costs associated with the start-up costs relating to new ventures, partially offset by lower finance charges.

Analysis of the Group's Separately Disclosed Items are listed below:

£m	FY18	FY17
New Operating Model implementation costs	(57)	(42)
Restructuring costs	(24)	(12)
Onerous leases and store closures	(40)	(30)
Costs of transformation	**(121)**	**(84)**
Investment in business dev. and start-up costs	(24)	(16)
Airline disruption costs	(16)	-
Reassessment of contingent consideration	-	32
Asset valuation reviews	(33)	(6)
Amortisation of business combination intangibles	(8)	(8)
Disposal of subsidiaries	53	1
Loss on disposal of PPE	(3)	(10)
Litigation and legal disputes	(7)	(6)
Pension plan amendment	14	-
Other	(8)	(2)
EBIT related items	**(153)**	**(99)**
Finance related charges	(26)	(41)
Total	**(179)**	**(140)**
Of which:		
- Cash[(i)]	(184)	(125)
- Non-Cash	5	(15)

Note (i) Items classified as "Cash" represent both current year cashflows, and cash effects which are yet to be realised. Disposal of subsidiaries has been treated as non-cash as the hotel assets have been contributed to fund for Group's interest in the Hotel Fund

Further information on Separately Disclosed Items is set out in Note 4 on page 31.

Taxation

The tax charge for the year was £110 million (FY17: £34 million), reflecting a non-cash adjustment of £64 million. As a result of the performance of the UK business it is considered appropriate to release the UK deferred tax assets. The cash tax cost of £39 million is broadly unchanged year on year.

£m	FY18	FY17
Current Tax	(46)	(42)
Deferred Tax	(64)	8
Total Tax Charge	**(110)**	**(34)**
Total Cash Tax	**(39)**	**(37)**

Operating lease charges

Operating lease charges in the year increased by £7 million compared to last year to £243 million. Aircraft operating lease charges increased by £25 million to £169 million primarily due to capacity growth.

In addition to the above, the Group incurred seasonal wet lease costs of £162 million (FY17: £75 million) during the year, of which £4 million (FY17: £nil) is included within separately disclosed items. The year-on-year increase was primarily due to our successful initiative to increase our market share in Germany following the Air Berlin insolvency. Due to very limited availability of aircraft the growth was supported by wet lease[i] aircraft.

£m	FY18	FY17
Included within Underlying EBIT:		
Aircraft operating lease charges	169	144
Retail operating lease charges	36	41
Hotel operating lease charges	20	19
Other operating lease charges	18	32
Total[i]	**243**	**236**

Notes (i) A wet lease is a leasing arrangement whereby one party provides an aircraft, complete crew, maintenance, and insurance (ACMI) to another party

(ii) In addition there are £20 million (FY17: £16 million) of onerous lease charges included within Seperately Disclosed Items.

Underlying earnings per share

Underlying earnings per share, before separately disclosed items, was (0.3) pence, a year-on-year decrease of 9.4 pence (FY17: 9.1 pence). Basic earnings per share for the year was (10.6) pence, a year-on-year decrease of 11.3 pence (FY17: 0.7 pence). Further information is included in Note 8 on page 34.

£m	FY18	FY17
Profit / (Loss) After Tax	(163)	9
Separately Disclosed Items	179	140
Attributable to Non-controlling Interests	-	1
Exceptional Tax[i]	(21)	(10)
Adjusted Profit After Tax	**(5)**	**140**
Weighted average number of shares (m)	1,533	1,536
Underlying Earnings Per Share (Pence)	**(0.3)p**	**9.1p**

Note (i) This represents the tax impact of separately disclosed items.

Summary Cash Flow Statement[i]

£m	FY18	FY17
Underlying EBITDA	**469**	**549**
Working capital	(60)	112
Tax	(39)	(37)
Pensions	(28)	(28)
Operating Cash flow	**342**	**596**
Exceptional items	(150)	(105)
Capital expenditure	(210)	(206)
Unlevered Free Cash Flow	**(18)**	**285**
Bond Refinancing	(12)	(10)
Net interest paid	(118)	(129)
Free Cash flow[i]	**(148)**	**146**
Proceeds on disposal	7	7
Dividend and Co-op payments	(67)	(40)
Net Cash flow	**(208)**	**113**

Opening Net Debt	**(40)**	**(129)**
Impact of currency and other non-cash movements[ii]	(52)	(7)
Aircraft lease extensions[ii]	(89)	(17)
Like-for-like Net Debt	**(181)**	**(153)**
Net Cash Flow	(208)	113
Closing Net Debt	**(389)**	**(40)**

Notes (i) The Group uses three non-statutory cash flow measures to manage the business: Operating Cash Flow is net cash from operating activities excluding interest income and the cash effect of separately disclosed items impacting EBIT. Unlevered Free Cash Flow is cash from operating activities less capital expenditure and net interest paid and Free Cash Flow addionally includes interest paid. Net Cashflow is the net (decrease)/increase in cash and cash equivalents excluding the net movement in borrowings, finance lease repayments and facility set-up fees

(ii) Other movements in net debt include currency translation and the extensions to aircraft related finance leases

Free cash flow for the year was an outflow of £(148) million, £294 million lower than last year. This was the result of a £80 million decrease in earnings before interest, tax, depreciation and amortisation (EBITDA), a £172 million adverse working capital movement and £45 million of higher cash exceptional costs, as a result of the accelerated transformation activity. The net working capital outflow of £60 million in the year was largely related to the weak summer trading activity, as well as a £34-million investment in our joint venture hotel fund.

Net cash interest paid decreased by £11 million to £118 million following the replacement of previous bonds with new lower-coupon bonds issued in December 2016 and December 2017.

The Group's cash outflow, together with non-cash changes such as foreign currency translation, resulted in net debt of £(389) million, £208 million higher on a like-for-like basis than the position as at 30 September 2017 (FY17 LfL: £181 million).

Current year cash exceptional items are analysed as follows:

Exceptional items (£m)	FY18	FY17
Current year cash related exceptionals	(184)	(125)
Of which will be paid in future years	46	26
Prior year cash exceptionals paid in current year	(24)	(16)
Total cash exceptional items[i]	**(162)**	**(115)**

Note (i) Total cash exceptionals in FY18 are the sum of exceptional items £(150) million and Bond Refinancing costs of £(12) million as presented in the cash flow.

Net Assets

Net Assets increased by £35 million from £256 million at September 2017 to £291 million at September 2018. This includes a positive revaluation of £198 million for the Group's derivatives in respect of fuel and currency hedging, due mainly to an increase in the differential between our hedged fuel prices and spot prices, together with a positive revaluation of our pension liability of £94 million due to an improvement in bond yields used to calculate the present value of the Group's pension obligations.

£m	FY18
Opening net assets(i)	**256**
Underlying PBT	126
Tax charge	(110)
Separately disclosed items	(179)
Revaluation of derivatives	198
Revaluation of pension liability	94
Currency losses	(90)
Dividends paid	(9)
Other	5
Closing net assets	**291**

Note (i) Opening net assets ahve been restated by £24 million to reflect the write down of historic balances now considered to be irrecoverable

Net Debt

The Group sources debt and finance facilities from a combination of the international capital markets and its relationship banking group. During FY18, the Group's net debt has increased from £40 million to £389 million, a worsening of £349 million.

The composition and maturity of the Group's net debt is summarised below.

£m	30 Sept. 2018	30 Sept. 2017	Movement	Maturity
€400m 2021 Euro Bond	-	(353)	+353	June 2021
€750m 2022 Euro Bond	(666)	(662)	-4	June 2022
€400m 2023 Euro Bond	(355)	-	-355	June 2023
Commercial Paper	(177)	(218)	+41	Various
Revolving Credit Facility(i)	-	-	-	Nov 2022
Finance Leases	(216)	(154)	-62	Various
Aircraft related borrowings	(15)	(32)	+17	Various
Other external debt	(26)	(37)	+11	Various
Arrangement fees	28	17	+11	n/a
Total Debt	**(1,427)**	**(1,439)**	**+12**	-
Cash (net of overdraft)	1,038	1,399	-361	-
Net Debt	**(389)**	**(40)**	**-349**	-

Note (i) The Revolving Credit Facility (RCF) is shown as nil in FY18 and FY17, however in FY18 the Group had utilised £20 million (FY17: £28 million) which related to the ancillary facilities of the RCF, which was used solely for bonding and is thus net debt neutral.

In November 2017 the Group entered into new financing arrangements amounting to £975 million. These include an enlarged £875-million revolving credit facility and bonding and guarantee facility, maturing in November 2022. In addition, the Group has a £100-million annual rolling bilateral funding from one of our insurance providers.

In December 2017, the Group refinanced its €400-million bond with a new bond of the same size which matures in June 2023. This has further improved the Group's liquidity and debt maturity profile and has lowered our annual interest costs due to a coupon rate reduction of nearly 300 basis points compared to the bond which was refinanced.

As at 30 September 2018 the Group had £875 million of Committed Facilities, which comprised a Revolving Credit Facility of £650 million, of which £20 million was utilised at 30 September 2018 (£28 million in September 2017), and a £225 million bonding and guarantee facility of which £193 million was drawn at 30 September 2018 (30 September 2017: £267 million). All of the combined £213 million of drawn balances have been used solely for bonding, and therefore is not reflected in our gross debt.

Treasury and Cash Management

The Group's funding, liquidity and exposure to foreign currencies, interest rates, commodity prices and financial credit risk are managed by a centralised Treasury function and are conducted within a framework of Board-approved policies and guidelines.

The principal aim of Treasury activities is to reduce volatility by hedging, which provides a degree of certainty to the operating segments, and to ensure a sufficient level of liquidity headroom at all times.

The successful execution of policy is intended to support a sustainable low-risk growth strategy, enable the Group to meet its financial commitments, and enhance the Group's credit rating over the medium term.

Due to the seasonality of the Group's business cycle and cash flows, a substantial amount of surplus cash accumulates during the summer months. Efficient use and tight control of cash throughout the Group is facilitated by the use of cash pooling arrangements and the net surplus cash is invested by Treasury in high quality, short-term liquid instruments consistent with Board-approved policy, which is designed to mitigate counterparty credit risk. Yield is maximised within the terms of the policy but returns in general remain low given the low interest rate environment in the UK, the US and Europe.

A small portion of the Group's cash is restricted in overseas jurisdictions primarily due to legal or regulatory requirements. Such cash does not form part of our liquidity headroom calculation.

Hedging of Fuel and Foreign Exchange

The objective of the Group's hedging policy is to smooth fluctuations in the price of Jet Fuel and foreign currencies, in order to provide greater certainty for planning purposes. The proportion of our exposures that have been hedged are shown in the table below.

	Winter 2018/19	Summer 2019	Winter 2019/20
Euro	Fully Hedged	81%	65%
US Dollar	Fully Hedged	78%	43%
Jet Fuel	Fully Hedged	83%	51%

As at 31 October 2018

As Fuel is priced in US Dollars, our net fuel costs are influenced by both the fuel price and the movements in the US Dollar against our base currencies.

On a constant volume basis, FY18 fuel costs increased by approximately £50million compared to prior year due to higher hedged fuel rates combined with an FX headwind, predominantly driven by the Sterling's weakness against the US dollar at the time of hedging. For FY19, we expect the effects of increasing fuel prices over the hedging period, offset by an FX tailwind due to a weaker US Dollar against our base currencies, to increase fuel costs by around £60m.

The Group does not hedge the translation of overseas profits into Sterling, and as a result of currency movements during the year, underlying EBIT in FY17 was lower by £14 million.

The average and period end exchange rates relative to the Group were as follows:

	Average Rate		Period End Rate	
	FY18	FY17	FY18	FY17
GBP/Euro	1.13	1.15	1.13	1.13
GBP/US Dollar	1.35	1.27	1.30	1.34
GBP/SEK	11.45	11.05	11.60	10.93

Credit Rating

The Group received an upgrade from S&P to B+ in January 2018, with a Stable outlook. Moody's maintained their B1 Stable rating throughout the year. Fitch also maintained their B+ rating, however issued a Negative outlook at the end of September 2018 following the Group's pre-close trading update.

Corporate Ratings	2018		2017	
	Rating	Outlook	Rating	Outlook
Standard and Poor's	B+	Stable	B	Positive
Fitch	B+	Negative	B+	Stable
Moody's	B1	Stable	B1	Stable

Forward looking statements

This document includes forward-looking statements that are based on estimates and assumptions and are subject to risks and uncertainties. These forward-looking statements are all statements other than statements of historical facts or statements in the present tense, and can be identified with words such as "aim", "anticipates", "aspires", "assumes", "believes", "could", "estimates", "expects", "intends", "hopes", "may", "outlook", "plans", "potential", "projects", "predicts", "should", "targets", "will", "would", as well as the negatives of these terms and other words of similar meaning. These statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those otherwise expressed.

The forward-looking statements in this document are made based upon our estimates, expectations and beliefs concerning future events affecting the Group and are subject to a number of known and unknown risks and uncertainties. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which it will operate, which may prove not to be accurate. We caution that these forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in these forward-looking statements. Undue reliance should, therefore, not be placed on such forward-looking statements.

Any forward-looking statements contained in this document apply only as at the date of this document and are not intended to give any assurance as to future results. Other than in accordance with any legal or regulatory obligations, the Group does not undertake any obligation to update or revise any forward-looking statement after the date on which the forward-looking statement was made, whether as a result of new information, future developments or otherwise.

APPENDIX 1 – USE OF ALTERNATIVE PERFORMANCE MEASURES

The Directors have adopted a number of alternative performance measures (APM), namely underlying EBIT, net debt, underlying EPS, operating cash flow, free cash flow and net cash flow. The Group's results are presented both before and after separately disclosed items. Separately disclosed items are disclosed in note 4 of the consolidated financial statements.

These measures have been used to identify the Group's strategic objectives of 'Underlying EBIT and Underlying EBIT margin growth' and 'Net Debt' reduction, and to monitor performance towards these goals. The alternative performance measures are not defined by IFRS and therefore may not be directly comparable with other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements. The definition of each APM presented in this report, together with a reconciliation to the nearest measure prepared in accordance with IFRS is presented below.

Underlying EBIT

This is the headline measure of the Group's performance, and is based on profit from operations before the impact of separately disclosed items. Underlying EBIT provides a measure of the underlying operating performance of the Group and growth in profitability of the operations.

Reconciliation to IFRS measures:

£m	FY18	FY17
Profit from operations	97	227
Add back: Separately disclosed items affecting profit from operations (Note 4)	(153)	(99)
Underlying EBIT	250	326

Management cash flow statement

The Group uses three non-statutory cash flow measures to manage the business. Operating Cash Flow is net cash used in operating activities excluding the cash effect of separately disclosed items. Free Cash flow is cash from operating activities less capital expenditure and interest paid. Net Cash Flow is the net decrease in cash and cash equivalents excluding the net movement in borrowings, facility set-up fees and finance lease repayments. These cash flow measures are indicators of the financial management of the business. They reflect the cash generated by the business before and after investing and financing activities and explain changes in the Group's Net Debt position.

Reconciliation to IFRS measures:

£m	FY18	FY17
Underlying EBIT	**250**	**326**
IFRS depreciation and amortisation	219	222
IFRS share based payments	5	3
IFRS movement in working capital and provisions	(114)	79
Payment to the Co-operative Group	58	-
Add back cash impact of separately disclosed items on working capital	(26)	27
IFRS Income taxes paid	(39)	(37)
IFRS additional pension contributions	(28)	(28)
Add back non cash impact of separately disclosed items	17	4
Operating Cash Flow	**342**	**596**
Payment to The Co-operative Group	(58)	-
Exceptional items	(150)	(104)
Interest Income	5	4
IFRS net cash used in operating activities	**139**	**496**
IFRS purchase of tangible assets	(123)	(132)
IFRS purchase of intangible assets	(87)	(74)
IFRS interest paid	(135)	(144)
Payment to the Co-operative Group	58	-
Free Cash Flow	**(148)**	**146**
IFRS dividends paid to non-controlling interests (the Co-operative Group)	-	(32)
IFRS proceeds on disposal of property, plant and equipment	7	7
Payments to The Co-operative Group	(58)	-
Dividends paid	(9)	(8)
Net Cash Flow	**(208)**	**113**

Underlying EPS

Earnings are based on results before separately disclosed items after a notional tax charge divided by the weighted average number of ordinary shares, adjusted for any potential dilutive impact of the assumed conversion of the employee equity-settled share based payment schemes outstanding.

Reconciliation to IFRS measures:

£m	**FY18**	**FY17**
Profit before tax	(53)	43
Separately disclosed items (Note 4)	(179)	(140)
Underlying profit before tax	**126**	**183**
Underlying tax charge[1]	(131)	(44)
Loss attributable to non-controlling interests	-	1
Underlying profit attributable to equity holders of the parent	**(5)**	**140**
Weighted average number of shares used for basic and diluted earnings per share (millions) (Note 8)	1,533	1,536
Underlying EPS (pence)	**(0.3p)**	**9.1p**

[1] The underlying tax charge £131m (2017: £44m) includes IFRS tax charge of £110m (2017: £34m) and a notional tax charge on separately disclosed items of £21m (2017: £10m).

Net debt

Net debt comprises bank and other borrowings, finance lease payables and net derivative financial instruments used to hedge exposure to interest rate risks of bank and other borrowings, offset by cash and cash equivalents. Net debt is a measure of how the Group manages its balance sheet and capital structure. A strong balance sheet and efficient capital structure is essential to withstand external market shocks and seize opportunities. Accordingly, reducing net debt and the cost of the debt is a priority for the Group.

Reconciliation to IFRS measures:

£m	**FY18**	**FY17**
Borrowings	(1,212)	(1,292)
Obligations under finance leases	(216)	(154)
Net derivative financial instruments – interest rate swaps	-	(1)
Cash and cash equivalents	1,039	1,407
Net Debt	**(389)**	**(40)**

APPENDIX 2 - AUDITED STATUTORY INFORMATION WITH COMPARATIVES

Group Income Statement		**Audited Year ended 30 September 2018**			Audited Year ended 30 September 2017 Restated		
		Underlying results	**Separately disclosed items (note 4)**	**Total**	Underlying results	Separately disclosed items (note 4)	Total
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Revenue	3	**9,584**	**-**	**9,584**	9,006	-	9,006
Cost of providing tourism services		**(7,629)**	**(22)**	**(7,651)**	(7,014)	(2)	(7,016)
Gross profit		**1,955**	**(22)**	**1,933**	1,992	(2)	1,990
Personnel expenses		**(1,015)**	**(56)**	**(1,071)**	(975)	(28)	(1,003)
Depreciation and amortisation		**(219)**	**-**	**(219)**	(222)	-	(222)
Net operating expenses		**(473)**	**(116)**	**(589)**	(468)	(52)	(520)
Profit/ (Loss) on disposal of subsidiaries and fixed assets		**-**	**41**	**41**	-	(9)	(9)
Amortisation of business combination intangibles		**-**	**(8)**	**(8)**	-	(8)	(8)
Share of results of joint venture and associates		**2**	**8**	**10**	(1)	-	(1)
Profit/ (Loss) from operations		**250**	**(153)**	**97**	326	(99)	227
Finance income	5	**5**	**-**	**5**	4	-	4
Finance costs	5	**(129)**	**(26)**	**(155)**	(147)	(41)	(188)
(Loss) / Profit before tax		**126**	**(179)**	**(53)**	183	(140)	43
Tax				**(110)**			(34)
(Loss) / Profit for the year				**(163)**			9
Attributable to:							
Equity holders of the parent				**(163)**			10
Non-controlling interests				**-**			(1)
				(163)			9
Basic and diluted earnings per share (pence)	8			**(10.6)**			0.7

See note 10 for details on the restatement.

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Group Statement of Comprehensive Income

	Audited Year ended 30 September 2018 £m	Audited Year ended 30 September 2017 Restated £m
(Loss) / profit for the year	**(163)**	9
Other comprehensive income and expense		
Items that will not be reclassified to profit or loss:		
Actuarial gains on defined benefit pension schemes	**122**	114
Tax on actuarial gains	**(28)**	(28)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation losses	**(90)**	(27)
Fair value gains and losses		
Gains / (losses) deferred for the year	**340**	(20)
Tax on gains / (losses) deferred for the year	**(54)**	[illegible]
Gains transferred to the income statement	**(103)**	[illegible]
Tax on gains transferred to the income statement	**15**	(5)
Total net other comprehensive income/(loss) for the year	**202**	(21)
Total comprehensive income/(loss) for the year	**39**	(12)
Attributable to:		
Owners of the parent	**39**	(11)
Non-controlling interests	**-**	(1)
Total comprehensive income/(loss) for the year	**39**	(12)

See note 10 for details on the restatement.

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Group Cash Flow Statement	Audited Year ended 30 September 2018 £m	Audited Year ended 30 September 2017 Restated £m
(Loss) / profit before tax	**(53)**	43
Adjustments for:		
Net finance costs	**150**	184
Share of results of joint ventures and associates	**(10)**	1
Increase in provisions	**37**	20
Depreciation, amortisation and impairment	**264**	238
(Profit)/ loss on disposal of subsidiaries and fixed assets	**(41)**	9
Share-based payments	**5**	3
Additional pension contributions	**(28)**	(28)
Interest received	**5**	4
Decrease/ (increase) in working capital:		
Inventories	**(2)**	2
Receivables	**(129)**	(107)
Payables	**(20)**	164
Cash generated from operations	**178**	533
Income taxes paid	**(39)**	(37)
Net cash from operating activities	**139**	496
Proceeds on disposal of property, plant and equipment	**6**	7
Proceeds on sale of subsidiaries	**1**	-
Proceeds on sale of non-current assets held for sale	**6**	-
Investment in joint ventures and associates	**(6)**	-
Purchase of tangible assets	**(123)**	(132)
Purchase of intangible assets	**(87)**	(74)
Net cash used in investing activities	**(203)**	(199)
Dividends paid to non-controlling interests	**-**	(32)
Dividends paid	**(9)**	(8)
Interest paid	**(135)**	(144)
Draw down of borrowings	**688**	1,011
Repayment of borrowings	**(759)**	(948)
Payment of facility set-up fees	**(27)**	(10)
Repayment of finance lease obligations	**(39)**	(44)
Net cash used in financing activities	**(281)**	(175)
Net (decrease)/increase in cash and cash equivalents	**(345)**	122
Cash, cash equivalents and overdrafts at beginning of year	**1,399**	1,234
Effect of foreign exchange rate changes	**(16)**	43
Cash, cash equivalents and overdrafts at end of year	**1,038**	1,399

See note 10 for details on the restatement.

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Thomas Cook Group

Group Balance Sheet

	Notes	Audited 30 September 2018 £m	Audited 30 September 2017 Restated £m
Non-current assets			
Intangible assets		**3,104**	3,136
Property, plant and equipment			
- aircraft and aircraft spares		**568**	581
- other		**150**	139
Investments in joint ventures and associates		**85**	6
Other investments		**1**	1
Deferred tax assets		**117**	216
Pension asset		**279**	123
Trade and other receivables		**83**	65
Derivative financial instruments		**14**	6
		4,401	4,273
Current assets			
Inventories		**44**	42
Tax assets		**-**	1
Trade and other receivables		**811**	725
Derivative financial instruments		**219**	56
Cash and cash equivalents		**1,039**	1,407
		2,113	2,231
Non-current assets held for sale		**55**	101
Total assets		**6,569**	6,605
Current liabilities			
Retirement benefit obligations		**(9)**	(9)
Trade and other payables		**(2,314)**	(2,349)
Borrowings		**(184)**	(245)
Obligations under finance leases		**(34)**	(39)
Tax liabilities		**(57)**	(57)
Revenue received in advance		**(1,390)**	(1,363)
Short-term provisions	9	**(214)**	(168)
Derivative financial instruments		**(20)**	(109)
		(4,222)	(4,339)
Non-current liabilities			
Retirement benefit obligations		**(435)**	(439)
Trade and other payables		**(24)**	(25)
Long-term borrowings		**(1,028)**	(1,047)
Obligations under finance leases		**(182)**	(115)
Non-current tax liabilities		**(11)**	(7)
Deferred tax liabilities		**(88)**	(61)
Long-term provisions	9	**(282)**	(307)
Derivative financial instruments		**(6)**	(9)
		(2,056)	(2,010)
Total liabilities		**(6,278)**	(6,349)
Net assets		**291**	256
Equity			
Called-up share capital		**69**	69
Share premium account		**524**	524
Merger reserve		**1,547**	1,547
Hedging and translation reserves		**116**	8
Capital redemption reserve		**8**	8
Accumulated losses		**(1,965)**	(1,891)
Investment in own shares		**(8)**	(8)
Equity attributable to equity owners of the parent		**291**	257
Non-controlling interests		**-**	(1)
Total equity		**291**	256

See note 10 for details on the restatement.

Thomas Cook Group

Group Statement of Changes in Equity

	Share capital & share premium £m	Other reserves £m	Hedging reserve £m	Translation reserve £m	Accumulated losses £m	Attributable to equity holders of parent £m	Non-controlling interests £m	Total £m
At 30 September 2016	593	1,547	40	75	(1,950)	305	21	326
Adjustment on correction of error	-	-	-	-	(21)	(21)	-	(21)
At 30 September 2016 restated	**593**	**1,547**	**40**	**75**	**(1,971)**	**284**	**21**	**305**
Profit for the year as reported	-	-	-	-	13	13	(1)	12
Adjustment on correction of error	-	-	-	-	(3)	(3)	-	(3)
Restated Profit for the year	**-**	**-**	**-**	**-**	**10**	**10**	**(1)**	**9**
Other comprehensive income/ (loss)								
Foreign exchange translation losses	-	-	-	(27)	-	(27)	-	(27)
Actuarial gains on defined benefit pension schemes (net of tax)	-	-	-	-	86	86	-	86
Losses deferred for the year (net of tax)	-	-	(15)	-	-	(15)	-	(15)
Gains transferred to the income statement (net of tax)	-	-	(65)	-	-	(65)	-	(65)
Total comprehensive income for the year	**-**	**-**	**(80)**	**(27)**	**96**	**(11)**	**(1)**	**(12)**
Equity credit in respect of share-based payments	-	-	-	-	3	3	-	3
Dividends paid	-	-	-	-	(8)	(8)	-	(8)
Dividends paid to non-controlling interest	-	-	-	-	-	-	(32)	(32)
Settlements of non-controlling interest	-	-	-	-	(11)	(11)	11	-
At 30 September 2017 restated	**593**	**1,547**	**(40)**	**48**	**(1,891)**	**257**	**(1)**	**256**
Loss for the year	**-**	**-**	**-**	**-**	**(163)**	**(163)**	**-**	**(163)**
Other comprehensive income/ (loss)								
Foreign exchange translation losses	-	-	-	(90)	-	(90)	-	(90)
Actuarial gains on defined benefit pension schemes (net of tax)	-	-	-	-	94	94	-	94
Gains deferred for the year (net of tax)	-	-	286	-	-	286	-	286
Gains transferred to the income statement (net of tax)	-	-	(88)	-	-	(88)	-	(88)
Total comprehensive income for the year	**-**	**-**	**198**	**(90)**	**(69)**	**39**	**-**	**39**
Equity credit in respect of share-based payments	-	-	-	-	5	5	-	5
Dividends paid	-	-	-	-	(9)	(9)	-	(9)
Settlements of non-controlling interest	-	-	-	-	(1)	(1)	1	-
At 30 September 2018	**593**	**1,547**	**158**	**(42)**	**(1,965)**	**291**	**-**	**291**

See note 10 for details on the restatement.

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Notes to the Financial Information

1. General information and basis of preparation

The financial information contained in this preliminary announcement, which comprises the Group Income Statement, Group Statement of Comprehensive Income, Group Cash Flow Statement, Group Balance Sheet, Group Statement of Changes In Equity and related notes, has been prepared on a going concern basis under the historical cost convention using the accounting policies set out in the 2018 Annual Report unless otherwise stated.

The financial information contained herein does not constitute the IFRS accounts of the Group within the meaning of section 435 of the Companies Act 2006. IFRS accounts for the year ended 30 September 2017 have been delivered to the Registrar of Companies and those for the year ended 30 September 2018 will be delivered following the Company's annual general meeting. Those IFRS accounts for the year ended 30 September 2018, on which the auditors have given an unqualified opinion, will be available for members of the public on our website at www.thomascookgroup.com in due course.

Management identified several adjustments that, in their opinion should be applied to Thomas Cook's financial statements for the year ended 30 September 2017. As a result these have been restated. Refer to Note 10 for further details of the restatement.

2. Accounting policies

The accounting policies adopted, are consistent with those of the annual financial statements for the year ended 30 September 2018, as described in those annual financial statements. No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 October 2017 have had a material impact on the Group.

3. Segmental information

For management purposes, the Group is organised into three operating divisions: Tour Operator, Group Airline and Corporate.
These divisions are the basis on which the Group reports its primary segment information. Certain residual businesses and corporate functions are not allocated to these divisions and are shown separately as Corporate.

These reportable segments are consistent with how information is presented to the Group Chief Executive Officer (chief operating decision maker) for the purpose of resource allocation and assessment of performance.

Segmental information for these activities is presented below:

Year ended 30 September 2018	**Tour Operator £m**	**Airline £m**	**Corporate £m**	**Group £m**
Revenue				
Segment sales	7,394	3,519	-	10,913
Inter-segment sales	(34)	(1,295)	-	(1,329)
Total revenue	**7,360**	**2,224**	**-**	**9,584**
Result				
Underlying operating profit/(loss) from operations	**161**	**129**	**(40)**	**250**
Separately disclosed items	(115)	(12)	(18)	(145)
Amortisation of business combination intangibles	(8)	-	-	(8)
Segment result	**38**	**117**	**(58)**	**97**
Finance income				5
Finance costs				(155)
Loss before tax				**(53)**
Tax				(110)
Loss for the year				**(163)**

Year ended 30 September 2017 restated	**Tour Operator £m**	**Airline £m**	**Corporate £m**	**Group £m**
Revenue				
Segment sales	7,121	3,185	-	10,306
Inter-segment sales	(43)	(1,257)	-	(1,300)
Total revenue	7,078	1,928	-	9,006
Result				
Underlying operating profit/(loss) from operations	**246**	**115**	**(35)**	**326**
Separately disclosed items	(74)	1	(18)	(91)
Amortisation of business combination intangibles	(8)	-	-	(8)
Segment result	164	116	(53)	227
Finance income				4
Finance costs				(188)
Profit before tax				43
Tax				(34)
Profit for the year				9

4. Separately Disclosed Items

	2018 £m	2017 £m
Affecting profit from operations:		
New Operating Model implementation costs	**(57)**	(42)
Restructuring costs	**(24)**	(12)
Onerous leases and store closures	**(40)**	(30)
Costs of transformation	**(121)**	(84)
Investment in business development and start-up costs	**(24)**	(16)
Airline disruption	**(16)**	-
Reassessment of contingent consideration	**-**	32
Impairment of assets	**(33)**	(6)
Amortisation of business combination intangibles	**(8)**	(8)
Disposal of subsidiaries	**53**	1
Loss on disposal of PPE	**(3)**	(10)
Litigation and legal disputes	**(7)**	(6)
Pension plan amendment	**14**	-
Other	**(8)**	(2)
	(153)	(99)
Affecting finance income and costs:		
Net interest cost on bond refinancing	**(19)**	(23)
Net interest cost on defined benefit obligation	**(6)**	(7)
Unwind of discount on provisions and other non-current liabilities	**(1)**	(11)
	(26)	(41)
Total separately disclosed items	**(179)**	(140)

New Operating Model implementation costs
Implementation costs relating to the New Operating Model ("NUMO") totalled £57m (2017: £42m) and primarily relate to on-going transformation and efficiency programmes in Continental Europe and the UK. These programmes commenced in 2015 with a focus on generating synergies within the Group by co-operating more closely across all source markets and harmonising activities, rather than duplicating processes in each individual market across a number of teams. The transformation projects focus on aligning and integrating activities across the Group in each business area, including finance, digital, marketing, product and yield management. This work represents an investment in our transformation, resulting in a material level of incremental cost that is not reflective of underlying business as usual activity. Accordingly we believe that it is appropriate to separately disclose these costs.

The costs that we have separately disclosed in relation to these programmes include: £20m (2017: £24m) of internal personnel costs in respect of employees who are dedicated to transformation projects and activities, including those in operational and back-office roles who are designing and implementing change as well as those in project management and project support roles. The relevant projects include: integration of content, marketing and brochure production activities, omni-channel optimisation which include retail transformation and web efficiency initiatives, contact centre rationalisation, finance, IT and other cost reduction programmes, and projects dedicated to implementing new products, ancillaries and customer experience tools. NUMO implementation costs also include: £9m (2017: £2m) in relation to the establishment of a Shared Service Centre (of which £7m (2017: £1m) are personnel related costs), £8m (2017: £1m) of redundancies, £7m of consultancy expense (2017: £2m), £5m (2017: £nil) of dual-running expenses for old systems that were upgraded in the year, £4m (2017: £9m) of IT project expense (of which £1m (2017: £nil) are personnel related costs), £2m (2017: £3m) of contact centre transformation activity (of which £1m (2017: £3m) are personnel related costs) and £2m (2017: £1m) of other operating expenses.

NUMO was initially established as a three-year transformation project but has evolved as implementation has progressed. Certain projects are expected to continue with costs being incurred into FY 19.

Restructuring costs
Restructuring costs of £24m (2017: £12m) include redundancy costs in the Airline of £13m (2017: £nil) and Tour Operator restructuring costs totalling £11m (2017: £12m) which includes £6m of redundancy costs.

Onerous leases and store closures
Onerous leases and store closures total £40m (2017: £30m). Provision is made for onerous lease contracts on stores that have closed, or where a decision to close has been announced, and for those stores where the projected future trading income, including sublet income, is insufficient to cover the lower of exit cost or cost of continuing to trade the store. Where the cost of continuing to trade the store is lower, the provision is based on the present value of expected future cash flows to the end of the lease term. Prior to recognising an onerous lease provision, the Group recognises any impairment loss that has occurred in respect of assets dedicated to that lease. Onerous lease expenses total £21m (2017: £16m) in the UK and £4m (2017: £nil) in France, of which £2m and £3m respectively relate to asset impairments. Store closure expenses incurred in relation to the UK closure programme total £14m (2017: £14m). There were also £1m (2017: £nil) of personnel costs incurred for internal time spent dealing with and managing these two matters.

Investment in business development and start-up costs
During the year, £24m (2017: £16m) has been incurred in relation to investment in the set-up of partnerships and new business developments. This is comprised of £13m relating to set-up costs of the Expedia partnership, £8m for Thomas Cook Money and £3m for a joint venture in China. Of the £24m, £12m (2017: £3m) was incurred in respect of personnel costs; comprised of £7m, £4m and £1m for Expedia, Thomas Cook Money & China respectively, with the remaining costs being operating expenses.

Airline disruption
During the year, following certain insolvencies in the Airline industry, Group Airlines secured additional airport slots and contracted 10 additional aircraft that would allow the Group to increase capacity in Summer 2018. To fly the new aircraft it was necessary to obtain new European Air Operators Certificates ('AOC') and register with the respective National Aviation Authorities. There were substantial delays in the processing of these registrations across the industry as competitors also sought to take advantage of the fall out of the insolvencies. As the Airline had initially planned for new AOCs and aircraft to be operational by 1 May, flight planning and bookings had already been committed for the start of the Summer season. The aircraft registration delays meant that the Group had to take expensive mitigating actions, including the use of short term sub-charters, in order to fly the committed Summer programme. The direct incremental costs associated with the disruption have been separately

disclosed. These include £5m of costs incurred with flight cancellations, £4m for EU261 compensation costs for those cancelled flights, £4m for the cost of wet leasing temporary ad-hoc capacity at above market rates and £2m of other costs directly associated with the disruption.

In addition, there were £1m of costs borne by the Tour Operator in respect of Airline insolvencies.

Reassessment of contingent consideration
During FY17, the Group announced its intention to acquire full control of its UK retail store network, following notification by The Co-operative Group ('the Co-op') of the decision to exercise its option over its stake in their UK retail joint venture. Accordingly, in the prior year, in line with the requirements of IFRS, the Group reassessed the carrying value of a contingent obligation to acquire the Co-op shares and this reassessment resulted in a reduction of £32m to the liability previously accrued.

Impairment of assets
Impairment of assets totalling £33m (2017: £6m) includes £15m in relation to an internally developed IT asset held within the Corporate Segment which had been built to serve our complementary offering but will now no longer be used due to the Group's new partnership with Expedia, £7m of IT asset write downs as part of system upgrades to the tour operator business, £6m of a write down of a legacy receivable within the Tour Operator, £2m of a write off of a loan receivable from one of our associated entities due to insolvency, £2m of write offs in relation to fixtures and fittings of a closed hotel and a £1m write off of assets within Thomas Cook Money Australia prior to its disposal.

Amortisation of business combination intangibles
Material business combination intangible assets were acquired as a result of the merger between Thomas Cook AG and MyTravel Group plc. and other business combinations made in subsequent years. The amortisation of these intangible assets is significant and the Group's Management considers that it should be disclosed separately to enable a full understanding of the Group's results.

Disposal of subsidiaries
During 2018, the Group announced the launch of its hotel fund, Thomas Cook Hotel Investments (TCHI), a joint venture with Swiss-based hotel property development company, LMEY Investments (LMEY). The establishment of the hotel fund included the sale of two of the Group's Greek hotels, the long-standing family resort Sunwing Kallithea in Rhodes and the well-established Sunwing Makrigialos in Crete, to the new joint venture. At the same time, Aldiana GmbH and LMEY also contributed hotel entities to TCHI. The Group holds a 42% interest in Aldiana GmbH and equity accounts for its share of Aldiana's profit for the year.

Alongside the share sales, upon the establishment of the joint venture, Hotel Management Agreements (HMAs) and Direct Licensing Agreements (DLAs) were signed between the Group and TCHI (and Aldiana GmbH and TCHI), such that the seed hotels will be managed either by the Group under one of Thomas Cook's own brands, or by Aldiana under the Aldiana brand. The HMAs and DLAs signed as part of completion of the disposal transaction have been fair valued and considered as part of the consideration received.

This transaction led to a £47m credit in respect of the hotel transactions, of which £9m relates to the Group's share of Aldiana's gain on disposal. For each hotel disposed the net gain or loss includes the gain from the net consideration received (including recognition of HMA/DLA intangibles) less the net book value of assets disposed and the currency translation reserve recycled to the income statement, net of costs incurred.

During the year the Group also disposed of its investments in Tour Vital Touristik GmbH, LLC Intourist and Thomas Cook Airlines Belgium. The net gain on these disposals totals £6m.

Loss on disposal of PPE
During the year, certain assets were disposed resulting in a £3m loss on disposal (2017: £10m). This includes a £4m loss arising for the write off of an aircraft engine and £2m of disposals of fixed assets across the Group, partially offset by a £2m gain from the sale of the Pegase brand and £1m gain from the sale of an aircraft.

Litigation and legal disputes
£7m (2017: £6m) of various one-off litigation costs were incurred in the year, which includes £4m of costs incurred in connection with defending fraudulent illness claims, £2m of legal costs relating to a historic acquisition related claim and a £1m commercial settlement in respect of an IT licensing matter.

Pension plan amendment
The pension plan amendment credit in the year relates to a one-time £14m gain following an amendment to the defined benefit Condor pension plan.

Other
Other separately disclosed items total £8m. These include; £6m of expenses for refinancing and the Group's legal entity reorganisation, principally tied to the refinancing that took place in November and December 2017; £3m for a one time IT failure at a Greek Airport that affected the Tour Operator segment in the Summer of 2018, and; £3m of costs (of which £1m are personnel related costs) incurred in the year to meet the requirements of General Data Protection Regulations ("GDPR") effective May 2018. Given these costs are in relation to the one-time set up costs for ensuring compliance with GDPR and not the on-going monitoring costs which will recur, we believe that it is appropriate to separately disclose these costs. These were partially offset by an £4m gain (2017: £6m) from the movement in forward points related to foreign exchange forward contracts and the time value of options in cash flow hedge relationships. The hedging related items are subject to market fluctuations and unwind when the options or forward contracts mature and are not therefore considered to be part of the Group's underlying performance.

Finance related charges
The Group has incurred £19m (2017: £23m) of interest charges as a result of entering into a new Revolving Credit Facility in November 2017 and issuing a new Euro bond in December 2017 which refinanced elements of the Group's debt at lower interest rates. These charges include the bond redemption premium paid and the write-off of capitalised fees in relation to extinguished debt. In addition, net interest charges arising on the Group's defined benefit pension schemes were £6m (2017: £7m). The Group also has provisions for future liabilities arising from separately disclosed circumstances, primarily deferred acquisition consideration. A notional interest charge of £1m (2017: £11m) on the discounted value of such provisions is recognised within separately disclosed finance related charges.

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5. Finance Income and Costs

	2018 £m	2017 £m
Underlying finance income		
Other interest and similar income	**5**	4
	5	4
Underlying finance costs		
Bank and Bond interest	**(71)**	(78)
Fee amortisation	**(8)**	(7)
Letters of credit	**(17)**	(20)
Other interest payable	**(14)**	(24)
	(110)	(129)
Underlying aircraft related finance costs		
Interest payable on aircraft related borrowings	**(2)**	(2)
Finance costs in respect of finance leases	**(17)**	(16)
	(19)	(18)
Underlying finance cost	**(129)**	(147)
Net underlying Interest	**(124)**	(143)
Separately disclosed finance costs (note 4)		
Bond refinancing costs	**(19)**	(23)
Net interest cost on defined benefit obligation	**(6)**	(7)
Unwind of discount on provisions and other non-current liabilities	**(1)**	(11)
	(26)	(41)
Total Net Interest	**(150)**	(184)

Bank and bond interest includes a fair value gain of £1m (2017: nil gain) on hedging instruments.

6. Tax

Analysis of tax charge		2018 £m	2017 £m
Current tax			
UK	Corporation tax charge for the year	**-**	-
	Adjustments in respect of prior periods	**-**	(4)
		-	(4)
Overseas	Corporation tax charge for the year	**45**	45
	Adjustments in respect of prior periods	**1**	1
		46	46
Total current tax		**46**	42
Deferred tax			
	Tax charge/(credit)	**64**	(8)
Total deferred tax		**64**	(8)
Total tax charge		**110**	34

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the UK standard corporation tax rate applicable to profits of the company as follows:

	2018 £m	2017 Restated £m
Tax reconciliation		
(Loss)/profit before tax	**(53)**	43
Expected tax charge at the UK corporation tax rate of 19% (2017: 19.5%)	**(10)**	8
Income not liable for tax	**(24)**	(23)
Expenses not deductible for tax purposes	**42**	16
Losses and other temporary differences for which tax relief is not available	**27**	41
Utilisation of tax losses and other temporary differences not previously recognised	**(4)**	(3)
Recognition of losses and other temporary differences not previously recognised	**-**	(58)
Derecognition of deferred tax previously recognised	**71**	44
Difference in rates of tax suffered on overseas earnings	**15**	7
Impact of changes in tax rates	**(6)**	5
Other	**-**	(2)
Income tax charge in respect of prior periods	**(1)**	(1)
Tax charge	**110**	34

7. Dividends

No dividends were declared during the year ended 30 September 2018 (2017: 0.6p per share).

8. Earnings per share

The calculations for earnings per share, based on the weighted average number of shares, are shown in the table below. The weighted average number of shares shown excludes 2m shares held by the employee share ownership trusts (2017: 3m).

	2018	2017 Restated
	£m	£m
Basic and diluted earnings per share		
Net (loss)/ profit attributable to the owners of the parent	**(163)**	10
	2018 millions	2017 millions
Weighted average number of shares for basic earnings per share	**1,533**	1,532
Weighted average number of shares for diluted earnings per share	**1,533**	1,536
	2018 pence	2017 pence
Basic and diluted (loss)/ earnings per share	(10.6)	0.7

9. Provisions

	Aircraft maintenance provisions	Off- market leases	Insurance and litigation	Reorganisation and restructuring plans	Other provisions	Total
	£m	£m	£m	£m	£m	£m
At 1 October 2016	330	5	71	3	31	440
Additional provisions in the year	73	-	109	12	31	225
Unused amounts released in the year	(37)	(2)	(3)	(2)	(4)	(48)
Unwinding of discount	11	-	-	-	1	12
Utilisation of provisions	(8)	(3)	(102)	(12)	(28)	(153)
Exchange differences	(3)	-	-	-	2	(1)
At 30 September 2017	**366**	-	**75**	**1**	**33**	**475**
Additional provisions in the year	**92**	-	**83**	**16**	**45**	**236**
Unused amounts released in the year	**(62)**	-	**(4)**	**(1)**	**(1)**	**(68)**
Unwinding of discount	**1**	-	-	-	-	**1**
Utilisation of provisions	**(26)**	-	**(78)**	**(12)**	**(40)**	**(156)**
Exchange differences	**7**	-	-	-	**1**	**8**
At 30 September 2018	**378**	-	**76**	**4**	**38**	**496**

Included in current liabilities	**214**
Included in non-current liabilities	**282**
At 30 September 2018	**496**

Included in current liabilities	168
Included in non-current liabilities	307
At 30 September 2017	475

The aircraft maintenance provisions relate to maintenance on leased aircraft and spares used by the Group's airlines in respect of leases which include contractual return conditions. This expenditure arises at different times over the life of the aircraft with major overhauls typically occurring between two and ten years. The aircraft maintenance provisions are re-assessed at least annually in the normal course of business with a corresponding adjustment made to either non-current assets (aircraft and aircraft spares) or aircraft costs, and this results in a release to the aircraft maintenance provision.

Insurance and litigation represents costs related to legal disputes, customer compensation claims (including EU261) and estimated costs arising through insurance contracts in the Group's subsidiary, White Horse Insurance Ireland DAC.

Reorganisation and restructuring plans predominantly represent committed restructuring costs in the Tour Operator segment.

Other provisions includes items such as onerous contracts, dilapidations and emissions trading liabilities. Of the £45m charge recognised in the year, £16m has been classified as a Separately Disclosed Item within 'Onerous leases and store closures'. For further details refer to Note 4. Onerous lease provisions will be utilised over the lease terms.

10. Prior Year Restatement

During the year management identified a total of £27m of aged debit balances within the UK balance sheet that are considered unsupportable as at 30 September 2017. These balances represent amounts that were recorded as income in error over the period of FY14 to FY17. In addition £3m of income should have been recognised during FY16 and FY17. These errors arose through the miscalculation of income earned, the incorrect recognition of adjustments intended to eliminate intercompany transactions and the miscalculation of amounts that could be cleared from the revenue in advance and accounts payable ledgers, in each case as a result of ineffective systems interfaces and controls. The company is confident that these system issues have now been rectified. In aggregate these errors are material to the net assets of the prior year and have therefore been reflected as prior year restatements.

The impact of this restatement principally affects the opening balance at 1 October 2017 and prior periods and resulted in a £7m decrease in trade and other receivables and £6m increase in trade and other payables and £8m decrease in revenue in advance, recorded within opening reserves as at 1 October 2017. A further £3m has been adjusted against underlying profit in 2017 with £3m reducing trade and other receivables. The errors have been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

Impact on equity - increase/(decrease) in equity:

	£m
Trade and other receivables	(10)
Trade and other payables	(6)
Revenue in advance	(8)
Net assets	**(24)**
Retained earnings brought forward	(21)
Retained earnings	(3)
Total equity	**(24)**

Impact on statement of profit or loss - increase/(decrease) in profit for 30 September 2017:

	Statutory profit £m
Revenue	(1)
Cost of Sales	(2)
Net impact on profit for the year	**(3)**
Attributable to:	
Equity holders of the parent	(3)
Non-controlling interests	-
	(3)

Impact on basic and diluted earnings per share (EPS) - increase/(decrease) in EPS

Basic and diluted EPS	(0.1)p

11. Subsequent events

From 1st October 2018, the Group increased the commercial paper programme capacity from €250m to €500m.